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SUBJECT: POST'S PERSPECTIVE ON SENEGAL'S IMF PROGRAM REVIEW ON JUNE 19

REF: Dakar 748

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11. (SBU) Summary: Senegal's Policy Support Instrument (PSI) program with the IMF will be presented for its 3rd Board review on June 19. We understand that the IMF Staff recommends a positive review. Post continues to believe it is essential to keep the IMF engaged in fiscal reform efforts through the PSI and that, absent a positive review that is unlikely. That said, the performance from the government, especially related to the political will to conform to the program, has not been stellar. From all appearances, Finance Minister Diop, recently departed Budget Minister Sow (Reftel), and their key staff were committed and effective in bringing the government's budget slippages into some order. They also held the line against requests for treasury advances and other non-conforming processes, often likely in the face of strong political pressure. IMF Resrep Segura was very active, and at times outspoken, in his efforts to assure that the government met the program's specific criteria. At the same time, it is not clear why the government failed to submit a revised budget in a timely manner, why it was not able to arrange new external financing, and why the independent audit of extra-budgetary commitments in 2007 and 2008 was not completed. As the IMF is offering new financial assistance under its Exogenous Shock Facility (ESF), hopefully it will also gain new assurances of very high-level political commitments to the program. This will especially be necessary should the IMF pursue additional, much-needed reforms for the fourth review, including fiscal responsibility from Senegal's energy sector. End summary.

THE GOOD NEWS

12. (SBU) The IMF Resrep for Senegal, Alex Segura, and his staff, were apparently once again scrambling to assure that the GOS fulfilled the program criteria under Senegal's Policy Support Instrument (PSI). Some of the most important criteria were met quickly following the December review, including, Segura believes, the total discontinuation of the treasury advances that created a massive stock of arrears owed to the private sector in 2008. These and other "budget slippages" appear to be largely contained. However, there are indications that since the end of March there have been some increase in arrears. This may be due to payment difficulties due to unexpectedly lower customs and tax receipts as a result of the global economic slowdown. Also encouraging, compared to a year ago, the GOS has drastically reduced the number of single-source or other non-competitive public tenders, and the government reportedly has now passed a Presidential Decree establishing an investigative unit within the Regulatory Agency for Public Procurement (ARMP), which was one criterion that had not been

met as of the end of May.

STILL TROUBLING

13. (SBU) The IMF Staff report recommends a positive Board Review on June 19. While it may be that Senegal has again met the letter of the program conditions (in part due to IMF flexibility), there were a number of issues that apparently caused Segura heartache, based on our conversations with him and a number of sources. Segura was working until the "last minute" to put pressure on senior officials, particularly in the Presidency, to assure that these basic measures were met.

14. (SBU) In the run-up to the third review, the GOS agreed to an independent audit of extra-budgetary spending and commitments in 2007 and 2008. The report was to have been completed by the end of March and then released publicly by the end of May. It is not yet finished and the IMF has apparently extended the deadline to the end of June. The reason for the delay is that "ministries and agencies" were not being cooperative. Segura reported that he had to visit President Wade personally and present a list of unresponsive Ministries in order to move the process forward. The lack of a report not only undercuts any claim of responsiveness by the GOS broadly under the PSI, but it will also create new fiscal difficulties as a yet undetermined number of unpaid prior year contracts will likely need to be paid where the supplier acted in good faith with GOS offices. The results of the audit will therefore play a role in Senegal's likely requirement for another budget revision later in the year.

15. (SBU) The government was apparently required to pass a supplementary (revised) budget that protected social spending by June 5. This deadline was extended to June 12, and the IMF apparently accepted that the budget has been presented to the National Assembly (having been approved by the Council of Ministers)

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but not actually passed by the legislature. [Comment: This is less worrisome than it might appear in that the National Assembly is dominated by President Wade's PDS party and will undoubtedly pass the budget -- perhaps before the end of June. The IMF is also apparently reluctant to impose criteria that require legislative action. End comment.] Still, political players both inside and outside the National Assembly could still try to manipulate this budget. The actual final text and funding priorities will need to be verified as part of the next review.

16. (SBU) More troubling than the delay in passing a budget are reports that officials close to the President and his son (Minister Karim Wade), initially presented a budget that was outside the framework agreed to with the IMF. This apparently included significant cuts in social spending. Moreover, the total amount of budget cuts was not sufficient to meet the current funding gap. Our sources tell us that Segura and his staff noticed these discrepancies and insisted that the budget be revised. In the end, the IMF apparently allowed some social spending to be reduced, given the need to cut CFA 30 billion (USD 61 million). The revised budget also shifts some resources in order to meet Senegal's CFA 55 billion commitment to build its new toll road, a project that has also received financing from the World Bank, the African Development Bank, and the French Development Agency (AFD), and is supposed to have a major contribution from a private concessionaire. This item was not included in Senegal's original 2009 budget.

17. (SBU) Most donors understood that before the third review the GOS needed to secure new financing of up to CFA 200 billion in order to close its current budget gap. The government originally wanted to sell a portion of its shares in the telecom company Sonatel to raise these funds. However, that deal fell apart in April when Sonatel's union and others strongly objected to the government ceding its controlling share of the company to France Telecom. We understand that the current GOS plan is to use its Sonatel shares as collateral for new commercial financing within the West Africa Economic and Monetary Union (WAEMU) region. To achieve that, the GOS apparently received a waiver on its public procurement regulations in order to sign a contract with the Moroccan firm BMCE

Capital to act as an investment consultant in helping to raise funds. It is not clear why the waiver was needed or if the IMF has reviewed the contract, but the details of the steps to fill this budget gap are not in place for the Board Review. [Note: BMCE Capital has played a similar role for a number of President Wade's high profile projects. End note.] The IMF, through its Exogenous Shock Facility (ESF) and the World Bank are apparently also offering new financing to the GOS.

TOUGH QUESTIONS SHOULD BE ASKED AT THE REVIEW

18. (SBU) Post understands that the IMF Staff Report, the result of the March 23-April 2 IMF Mission, recommends a positive review and approval. While Senegal clearly met most of the program criteria for this review, the delay in the audit, revised budget, and new financing in some ways makes this review incomplete, at least compared to its initial framework. We recommend that Board members ask some tough questions:

-- Why was the audit of external budget commitments not completed? (Post believes the government had sufficient time to contract for the auditing firm and that ministries and agencies had sufficient time to respond to the inquiry, if they were motivated to do so.)

-- Why was the revised budget delayed? In formulating this budget, what were the government's priorities? What steps did it take to protect important social spending (health, education, sanitation)? Given the other financing coming on line, does the GOS really need to provide funds for the toll road at this time? Couldn't it negotiate with the donors to reschedule its contribution?

-- Why couldn't financing be concluded to help close the current budget gap and provide the Board with a better sense of the state of Senegal's finances for the next six months? If a consultant was necessary, how does that contract qualify as an "emergency" for public procurement waivers? How can the Board be assured that the government is getting the best value for its money in a transaction like this?

-- If the IMF feels that Senegal qualifies for even greater financial assistance under the ESF, what demands are being placed on the GOS in return in terms of transparency, accountability, and commitment to the goals of the PSI?

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-- The former Budget Minister apparently did a highly credible job in ending the practices of treasury advances that caused so much difficulty in 2007 and 2008. What assurances has the Board received that the new Budget Minister will be able to continue to hold the line against this or other abuses of the Treasury?

-- What has happened with the budgetary float since the end of March? There are indications that it has increased.

THE FOURTH REVIEW COULD BE EVEN MORE DIFFICULT - IF THE RIGHT CRITERIA ARE SET

19. (SBU) Regarding Senegal's situation vis-a-vis the fourth review under the PSI, critical economic and budget reforms should be considered. The Staff Report mentions Senegal's energy sector, which is costly, unreliable and subject to fluctuating fuel prices. Senelec's weak financial situation and the continued power shortages are negatively impacting the government's budget and its ability to attract and retain investors. In short, the energy sector needs to greatly improve transparency, accountability, and performance.

10. (SBU) There are growing concerns about backsliding in governmental accountability. In the drafting of the revised budget, there was apparently an attempt to dangerously reduce funding to Senegal's audit court. In addition, though there have been improvements in the number of government contracts filled under effective public procurement procedures, there are indications that pressure continues to be applied on financial control agents to allow single-source contracts (such as the one for BMCE Capital). Press reports have indicated this was one of the factors leading to

former Budget Minister Sow's resignation. The Energy Ministry's plans for a second, new coal-fired plant were derailed by the lack of a public tender for the operator. This plan to increase badly needed productive capacity remains in the Ministry's timeline for 2011 -- with no apparent movement towards organizing a public tender.

¶11. (SBU) The IMF could also include within the scope of the program improved practices on land reform, and issuances. On more than one occasion, government officials have pursued one of President Wade's "special projects" by offering land to contractors in lieu of establishing a budget item. The most visible case is the Statue of the African Renaissance in Dakar, which was reportedly financed through gifts of land to a middleman. President Wade is apparently working to pass new laws that would remove much of the land use control from local governments and centralize it within the national government.

¶12. (SBU) In December 2009, Senegal will host the Fesman Festival of African Arts, which will be a major international event, drawing comparisons to Senegal's hosting of the Organization of Islamic States Summit in March 2008. That event is credited as one of the causes of Senegal's budget crisis last year. Hopefully, the new controls established as part of Senegal's PSI will preclude any repeat of similar pressures on the budget.

¶13. (SBU) All of the above described areas are critical for Senegal's fiscal health. They will not be easy to address under an IMF program since they directly impact the portfolios of senior officials who may choose to be unresponsive, but the odds of them being responsibly managed absent such international oversight are even lower.

COMMENT

¶14. (SBU) Senegal's economic situation has likely legitimately deteriorated since the IMF's last mission. That may account for some of the disparity in the Staff Report's summary findings and the broader continued skepticism of the government's performance. To be more specific, this skepticism rests largely with the lack of a clear political commitment to meeting the program's goals and achieving lasting fiscal reform. If there had been high-level political will directing the government's efforts on this third review, many, if not all of the problems outlined here could have been addressed, and in a timely manner.

¶15. (SBU) However, Post continues to have confidence in the Finance Minister and his staff, and we believe we should give the new Budget Minister the benefit of the doubt. One new hurdle for the soundness of this program will be Resrep Segura's scheduled September departure. He has been not only very active in following the

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government's response, but also admirably willing to raise his legitimate concerns in public when the response was lacking.

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